

**REPORT OF THE DIRECTOR OF FINANCE & TREASURER
RE. INVESTMENT POLICY
FOR THE CONSIDERATION OF COUNCIL**

OBJECTIVE

To review and revise the Investment Policy for the City of Elliot Lake.

RECOMMENDATION

That the report of the Director of Finance/Treasurer re: Investment Policy; be received
and that Council adopt the attached Investment Policy (Appendix A).

Respectfully Submitted



Amy Sonnenburg
Director of Finance & Treasurer

Approved



Daniel Gagnon
Chief Administrative Officer

BACKGROUND

The City of Elliot Lake is authorized under Section 418 of the Municipal Act, 2001 to invest funds not immediately required, in eligible investments in accordance with Ontario regulations which may be prescribed from time to time. In particular, investments must conform to Eligible Investments, Regulation 438/97 (amended to O. Reg. 373/11). The current investment policy was approved and adopted by council in August of 2016.

The City's Investment Policy governs the prudent management of the City's surplus funds and investment portfolio. It restricts further the investments that are permitted under the Municipal Act, and recognizes the need to maintain high quality investments in the portfolio. This ensures that investment activity is conducted in a manner that maximizes investment return and minimizes investment risk while conforming to legislation governing the investment of public funds.

DISTRIBUTION OF INTEREST REVENUE

From the Report of the Director of Finance/Treasurer re: Discretionary Reserves Report and Capital Forecast detailed in the May 2021 Reserves;

The City earns interest on investments held at Edward Jones, Northern Credit Union, RBC and One Investment. Interest revenue is reconciled at year end and distributed amongst the reserves based on the average balance held in each reserve throughout the year. The exception to the above rule is the Community Hub (Recreation) and Waterfront Development (Elliot Lake Residential Development Corp. ELRDC) which earn interest separately on the balances held.

Year	Reserve Balance	Interest Revenue	% interest
2017	(14,797,576)	(306,399)	1.94%
2018	(16,867,172)	(306,566)	1.67%
2019	(19,860,648)	(436,920)	2.06%
2020 ¹	(22,510,177)	(353,335)	1.50%
2021	(24,643,000)	TBD	TBD

TYPES OF INVESTMENTS

The investment policy details the types of investments that are permissible. The percentages detailed pertain to the entire portfolio. It is permissible that 100% of the City's funds can be held in Bank Deposits, this would be irresponsible, as there is very little interest earned on bank deposits. By the same token, it is also permissible that 100% of the funds could be held in government bonds or treasury bill, this too would be irresponsible as we need liquidity for operations. The chart below details the currently approved investment types and the percentage that may be held within the portfolio.

¹ Based on unaudited working papers; 2020 audit is underway

Type of Investment	Definition / Explanation	% of portfolio
Bank Deposits	Include savings accounts, checking accounts, and money market accounts	100%
Canada Treasury Bills	T-bills are a safe form of investment because they are backed by the Canadian or Provincial Government and are considered risk-free. Treasury Bills can easily be converted into cash. They are issued at a discount and kept until maturity, the difference between the issue price and the amount you cash it in for is considered to be interest revenue	100%
Provincial Treasury Bills		
Federal / Provincial Bonds	Government of Canada Bonds offer attractive returns and are fully guaranteed by the federal government. They pay a guaranteed, fixed level of interest income until maturity, at which time the full face value is repaid.	100%
Municipal Debentures	Municipal debenture is a bond or debt security issued by a municipality, school district, irrigation district or other public corporation to finance its capital expenditures, including the construction of highways, bridges or schools. They can be thought of as loans that investors make to local governments.	50%
Bankers' Acceptance	A banker's acceptance is a legally binding obligation by the accepting bank to pay the stated amount at the maturity date of the time draft.	50%
Term Deposits / GIC	Term Deposits pay fixed interest for a specified term between 30 and 365 days. Guaranteed Investment Certificates (GICs) pay a fixed rate of interest for a specified term between one and five years. The principal is guaranteed in both cases.	50%
Corporate Bonds / Debentures	A corporate bond is a type of debt security that is issued by a firm and sold to investors. The company gets the capital it needs and in return the investor is paid a pre-established number of interest payments at either a fixed or variable interest rate	15%
ONE Money Market Portfolio	ONE Money Market Portfolio retains a diversified portfolio of short-term money market securities, providing a high degree of liquidity and safety of principal.	50%
ONE Canadian Government Bond Portfolio	ONE Canadian Government Bond Portfolio provides competitive rates of return through a diversified portfolio of conservatively managed short-term bonds where preservation of capital is of prime concern. Qualified securities include Government of Canada Debt and Guarantees, Provincial Government Debt and Guarantees, Canadian Municipal Debt, Canadian Bank Debt, Loan and Trust Company Debt, and highly rated commercial paper. <i>previously: ONE Funds Balanced Portfolio</i>	50%
ONE Funds Bond Portfolio	Discontinued	30%
ONE Canadian Corporate Bond Portfolio	ONE Canadian Corporate Bond Portfolio provides higher rates of return in the 4+ year time frame by investing in a diversified, conservatively managed portfolio of corporate and government bonds, debentures, and/or promissory notes as permitted by applicable regulation. The Corporate bonds have historically offered incrementally better returns than traditional government bonds while offering less short-term interest rate risk than equity investments <i>previously: ONE Funds Universe Corporate Bond Portfolio</i>	25%
ONE Canadian Equity Portfolio	ONE Canadian Equity Portfolio provides superior long-term investment returns through capital growth and dividend yield. The ONE Canadian Equity Portfolio achieves this by investing in a diversified, conservatively managed portfolio of equity securities issued by Canadian corporations <i>previously: ONE Funds Equity Portfolio.</i>	10%

ONE Investment Program is a professionally managed group of investment funds composed of pooled investments that meet eligibility criteria as defined by regulations under the Municipal Act. Managed by Local Authorities Service Limited (LAS), a subsidiary of the Association of Municipalities of Ontario (AMO) in conjunction with CHUMS Financing Corporation (CHUMS), a subsidiary of the Municipal Finance Officers Association of Ontario (MFOA)

ANALYSIS

A December 31 snapshot of the portfolio of investments is provided below for 2020 and 2019. Notably, from 2019 to 2020 we see that there is a decrease in government bills and bonds and an increase in term deposits and GIC's. This is due to the fact that during 2020 term deposits and GIC's offered a higher interest rate.

	2020	Portfolio %	2019	Portfolio %
Bank Deposits	14,716,804	68.72%	11,345,557	64.73%
Provincial Treasury Bills	1,536,032	7.17%	1,977,085	11.28%
Federal / Provincial Bonds	496,235	2.32%	547,791	3.13%
Term Deposits / GIC	2,393,926	11.18%	1,205,891	6.88%
Corporate Bonds / Debentures	1,549,521	7.24%	1,752,614	10.00%
ONE Funds Bond Portfolio	290,674	1.36%	282,178	1.61%
ONE Funds Universe Corporate Bond Portfolio	224,202	1.05%	216,756	1.24%
ONE Funds Equity Portfolio	207,121	0.97%	200,000	1.14%
Total Portfolio	21,414,515	100%	17,527,872	100%

As bills and bonds came due (turned to cash), the highest interest earning potential existed with term deposits and GIC's. Upon review of the average interest earned across the portfolio, it is noted that investments in equities is yielding a better interest rate.

	2020 Interest Revenue	average % interest earned	2019 Interest Revenue	average % interest earned
Bank Deposits	148,731	1.01%	244,321	2.15%
Provincial Treasury Bills	81,076	5.28%	86,293	4.36%
Federal / Provincial Bonds	13,750	2.77%	25,287	4.62%
Term Deposits / GIC	41,155	1.72%	18,565	1.54%
Corporate Bonds / Debentures	45,561	2.94%	51,476	2.94%
ONE Funds Bond Portfolio	8,496	2.92%	6,098	2.16%
ONE Funds Universe Corporate Bond Portfolio	7,445	3.32%	4,890	2.26%
ONE Funds Equity Portfolio	7,121	3.44%	-	
Total Portfolio	353,335	2.93%	436,931	2.86%

EQUITIES

Currently, the investment policy precludes the City from Equity Investments outside of the ONE Fund Equity Portfolio. Due to poor market conditions in 2020, the City reinvested maturing ONE Fund bonds into the ONE Fund Equity portfolio with good performance.

Upon consultation with the City's broker at Edward Jones and RBC, the ability to invest in Canadian Equities would improve our current portfolio and ability to earn interest revenue. Canadian Equities include Exchange Traded Funds (ETF's). An ETF is a basket of securities, shares of which are sold on an exchange. They combine features and potential benefits of stocks, mutual funds, or bonds. Like individual stocks, ETF shares are traded throughout the day at prices that change based on supply and demand.

An example of an ETF has been provided by Edward Jones. Appendix A, provides details for XIU. This ETF that is yielding more than 3% return.

The extension to include Canadian Equities in the City's portfolio is permitted under 2.8.1 of the Municipal Act, 2001 Ontario Reg. 438/97. To this extent, it is recommended that Appendix A of the current Investment Policy be revised to include a provision for Canadian Equities. The percentage permitted would align with the ONE Funds Equity Portfolio, with a portfolio limit of 10%.

FINANCIAL IMPACT

There is no financial impact to receiving this report or adopting the Investment Policy.

The primary objectives of the investment policy, in priority order, are as follows:

- Legality of investments;
- Preservation of capital;
- Maintenance of liquidity; and
- Competitive rate of return.

LINKS TO STRATEGIC PLAN

Investing surplus funds in accordance with the Municipal Act and Ontario regulations is a critical element in the City's goal to operate in a fiscally responsible manner.

SUMMARY

It is recommended that Council amend Appendix A of the Investment Policy to include investments in Canadian Equities.